

P-407, 421/CP-87-219 ORDER REQUIRING REFILED COST STUDIES AND  
INFORMATION REGARDING LOWER COST ALTERNATIVE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
Commissioner  
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In the Matter of the Petition of  
Certain Subscribers in the  
Exchange of Delano for Extended  
Area Service to the  
Minneapolis/St. Paul  
Metropolitan Calling Area

ISSUE DATE: July 31, 1991

DOCKET NO. P-407, 421/CP-87-219

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**PROCEDURAL HISTORY**

On June 26, 1991, the Commission issued its ORDER AFTER RECONSIDERATION OF JUNE 26, 1990 ORDER IN LIGHT OF MINNESOTA STATUTE § 237.161 (1990). In that Order, the Commission considered petitions for extended area service (EAS) from four metropolitan area exchanges and 12 non-metropolitan area exchanges. The Commission considered the Delano EAS petition among 12 from non-metropolitan area exchanges. With respect to Delano, the Commission found that it met the new EAS statute's adjacency requirement and directed the telephone company serving the Delano exchange<sup>1</sup>, to file, within 45 days, a traffic study that would allow the Commission to determine whether the traffic requirement of the new EAS statute was satisfied.

On August 13, 1990, Contel of Minnesota, Inc. (Contel) filed its traffic study for the Delano exchange.

On September 13, 1990, the Commission found that the traffic study for the Delano exchange indicated sufficient traffic between the Delano exchange and the metropolitan calling area (MCA) to satisfy the EAS statute's traffic criterion. Therefore, the Commission issued an Order requiring Contel and the telephone companies serving the existing MCA to file cost studies and proposed rates for the proposed EAS between the Delano exchange and the MCA.

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<sup>1</sup> At the time of the June 26, 1990 Order, the company serving the Delano exchange was named Contel of Minnesota, Inc. (Contel). By July 16, 1991 Order of the Commission, the name of the company changed to Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota). For post-name change activity, therefore, this Order refers to the company serving the Delano exchange as GTE Minnesota.

By December 13, 1990, all the affected telephone companies had filed cost studies and proposed rates.

On February 27, 1991 and again on April 26, 1991, the Commission granted requests from the Minnesota Department of Public Service (the Department) for additional time to comment on the companies' cost studies and proposed rates.

On April 1, 1991, Contel refiled its cost study and proposed rates in response to a Department information request.

On May 10, 1991, the Department filed its report and recommendation regarding the companies' cost studies and proposed rates. The Department recommended that the Commission 1) direct the companies to file amended cost studies that use data for the past 12 months and that assume a zero percent gross receipts tax; 2) extend the "true-up" mechanism approved in earlier EAS dockets; 3) order United to use the intercompany cost apportionment mechanism proposed by the affected telephone companies to estimate its current toll traffic to calculate its internal cost apportionment and rates; and 4) order Contel to refile its proposed EAS rates using the current MCA average business one-party to residential one-party ratio of 2.947:1.

On July 16, 1991, the Commission met to consider this matter.

## **FINDINGS AND CONCLUSIONS**

### **A. New Cost Studies**

The Commission finds that the cost studies filed in this matter do not provide an adequate basis for determining EAS rates for the Lindstrom exchange. The Commission, therefore, will require the affected telephone companies to file cost studies consistent with this Order.<sup>2</sup>

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<sup>2</sup> The affected telephone companies in this matter are: Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota, formerly Contel of Minnesota, Inc.), U S West Communications, Inc. (USWC), United Telephone Company (United), Vista Telephone Company of Minnesota, Inc. (Vista, formerly Central Telephone Company), Scott-Rice Telephone Company (Scott-Rice) and Eckles Telephone Company (Eckles). Note that Eckles Telephone company has recently joined the list of affected telephone companies in this matter. On June 26, 1991, the Commission expanded the metropolitan calling area (MCA) to include New Prague, the exchange served by Eckles. Eckles is, therefore, an affected telephone company in any petition for EAS to the MCA subsequently considered by the Commission.

## **1. Traffic Studies: the Basis for Cost Studies**

Dependable cost studies require the best possible data regarding traffic volume. Unfortunately, the traffic data used by the companies is inadequate. For example, Contel used traffic from only one month (May 1990); USWC used data which it later acknowledged was flawed; and United used a one month traffic study to apportion its 25% of the EAS costs to each of its exchanges within the metro area. Moreover, each affected telephone company chose its own time period for conducting a traffic study and applied its own traffic collection techniques.

To correct these deficiencies, the Commission will require the companies to consult with each other and the Department to select a dependable and uniform traffic study methodology (including, for example, the same traffic study period) that they will all employ. In seeking dependable traffic projections, the Commission will not require the companies to use 12 months of actual data, as the Department recommends. Twelve months of data is difficult and time consuming to obtain and may not greatly improve the accuracy of current estimates. It is essential, however, that the companies use the same and the best methodology available.

## **2. Treatment of Other Cost Study Issues**

### **a. Gross Receipts Tax**

Since the Commission has not adopted the Department's recommendation that the cost studies assume a zero percent gross receipts tax, the cost studies should assume the level of gross receipts tax that the companies experience under the current gross receipts tax statute. This treatment will be consistent with what the Commission has prescribed in previous EAS cases.

### **b. Recent Additions to the Metro EAS**

The cost studies will be further improved by taking into account the fact that recently four exchanges have been added to the metropolitan calling area: Belle Plaine, Cologne, Waconia, and New Prague. Because the addition of these four exchanges is known at this time, there is no need to postpone factoring in this impact on rates until a true-up hearing sometime in the future as the Department has recommended. The companies can adjust their cost studies to reflect projected loss of access contribution and cost savings from the addition of Delano to the metropolitan calling area including these four exchanges at this time and should do so.

## **B. Proposed Rates**

Contel, now GTE Minnesota, proposed EAS rates that have a business/residence ratio of 2:1. The Department objected to this ratio and recommended that the Commission direct Contel to

propose EAS rates with a business/residence ratio of 2.947:1. In support of this proposed ratio, the Department notes that 2.947:1 is the weighted average of business/residence ratios in the MCA and therefore reflects the value of EAS service to the MCA for Delano business and residential subscribers.

The 2:1 business/residential ratio was adopted in the EAS rates that the Commission approved for balloting purposes in New Germany, Watertown and Mayer. In addition, 70 of Contel's exchanges have a 2:1 ratio for EAS additives. In these circumstances, the Commission will not adopt the new business/residential ratio for EAS rates recommended by the Department. The Commission finds it more reasonable and equitable to continue the 2:1 business/residential ratio for EAS rates as traditionally used by Contel.

### **C. Providing a Lower Cost Alternative**

According to Minn. Stat. § 237.161, subd. 1 (c) (1990), the telephone company serving an exchange in which subscribers are seeking EAS to the metropolitan calling area must make a lower cost alternative to basic flat-rate service available to its customers. GTE Minnesota, formerly Contel, the telephone company serving the petitioning exchange in this docket (Delano), does not have a local measured service (LMS) rate on file at this time and it is unknown what service (local measured service or other lower cost alternative) GTE Minnesota proposes to offer to comply with the statute.

Therefore, the Commission will require GTE Minnesota to indicate, at the same time it files its amended cost study, what rate structure it proposes as its lower cost alternative to the flat rate. If GTE Minnesota's lower cost alternative rate is not currently approved, it shall indicate in its filing the methodology it will follow to develop its proposed rate.

### **ORDER**

1. Within 45 days of this Order, the affected telephone companies in this matter shall
  - a. consult with each other and the Minnesota Department of Public Service (the Department) to develop a reliable and uniform traffic study methodology,
  - b. develop traffic projections using the traffic study methodology developed pursuant to Ordering Paragraph 1 (a), and
  - c. refile cost studies with the Commission and the Department that

- 1) are based on the new traffic projections developed pursuant to Ordering Paragraph 1 (a) and (b);
- 2) take into account the inclusion in the metropolitan calling area of the Belle Plaine, Cologne, Waconia, and New Prague exchanges; and
- 3) assume a gross receipts tax at the level required under the current gross receipts tax statute.

The affected telephone companies in this matter are as follows: Contel of Minnesota, Inc. d/b/a GTE Minnesota (formerly Contel of Minnesota, Inc.), U S West Communications, Inc., Vista Telephone Company of Minnesota, Inc. (formerly Central Telephone Company), United Telephone Company, Scott-Rice Telephone Company, and Eckles Telephone Company.

2. When it refiles its cost study pursuant to Ordering Paragraph 1 of this Order, Contel of Minnesota, Inc. d/b/a GTE Minnesota (formerly Contel of Minnesota, Inc.) shall indicate what rate structure it proposes as its lower cost alternative to basic flat rate service. If its proposed lower cost alternative rate is not currently approved, Contel shall indicate the methodology it will follow to develop its proposed rate.
3. Within 45 days after the filing of the affected companies' cost studies and proposed rates pursuant to Ordering Paragraph 1, the Department shall file its report and recommendations on the cost studies and proposed rates. The Department's report shall indicate whether the cost studies meet the minimum requirements of Minn. Stat. § 237.161 (1990).
4. Within 20 days after the Department's filing required by Ordering Paragraph 3, any interested party may file comments.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

(S E A L)